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9 MAY 1983

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(9) of the Internal Revenue Code of 1954.

You were created to provide hospital and medical insurance to the employees of [REDACTED] and wage continuation and disability payments. Contributions to provide benefits under the Plan shall be paid by the employer. Presently, there is one employee, [REDACTED] who is president of the employer as well as a trustee of your trust.

Section 501(c)(9) of the Code provides for the exemption from federal income tax of voluntary employees' beneficiary associations providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents or designated beneficiaries if no part of the net earnings of such association inures (other than through such payments) to the benefit of any private shareholder or individual.

Section 1.501(c)(9)-2(a)(1) of the Income Tax Regulations provides that membership of an organization described in section 501(c)(9) must consist of individuals who become entitled to participate by reason of their being employees and whose eligibility for membership is defined by reference to objective standards that constitute an employment-related common bond among such individuals. Also, whether a group of individuals is defined by a permissible standard or standards is a question to be determined with regard to all the facts and circumstances (emphasis added).

Section 1.501(c)(9)-2(a)(2) of the regulations states that any objective criteria used to restrict eligibility for membership or benefits may not, however, be selected or administered in a manner that limits membership or benefits to officers, shareholders, or highly compensated employees of an employer contributing to otherwise funding the employees' association. Similarly, eligibility for benefits may not be subject to conditions or limitations that have the effect of entitling officers, shareholders, or highly compensated employees of an employer contributing to or otherwise funding the employees' association to benefits that are disproportionate in relation to benefits to which other members of the association are entitled.

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District Director of Internal Revenue

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**CENTRALIZED SERVICES
BALTIMORE**

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Section 1.501(c)(9)-4(b) of the regulations states, in part, that for the purposes of determining whether prohibited inurement has occurred, the payment to any member of disproportionate benefits, where such payment is not pursuant to objective and nondiscriminatory standards, will not be considered a benefit within the meaning of section 501(c)(9) of the Code. For example, the payment to highly compensated personnel of benefits that are disproportionate in relation to benefits received by other members of the association will constitute prohibited inurement.

Based on the information submitted, we conclude that you are not a voluntary employees' beneficiary association as that term is used in section 501(c)(9) of the Code.

First, although your Trust Agreement provides for a membership of employees, [REDACTED], is your only member and under your plan is the sole recipient of benefits. As stated in section 1.501(c)(9)-2(a)(1) of the regulations, to be described in section 501(c)(9) the membership of an organization must consist of individuals, who become entitled to participate by reason of their being employees and whose eligibility for membership is defined by reference to objective standards that constitute an employment-related common bond among such individuals. (Emphasis added.) This relationship does not exist in your organization.

Second, even if your Trust's eligibility requirements met the membership requirements, section 1.501(c)(9)-2(a)(2) of the regulations prohibits exemption under section 501(c)(9), where the eligibility for membership or benefits are administered in a manner that limits membership or benefits to officers, shareholders, or highly compensated employees. [REDACTED] is an officer of the employer's organization. Because he is the only member and the sole recipient of benefits, you do not meet the requirement of the regulations. Further, in this respect, based on the facts and circumstances, it may be considered that he is receiving disproportionate benefits and, therefore, prohibited inurement occurs which defeats exemption under section 501(c)(9) of the Code.

Accordingly, based on all the facts and circumstances, we conclude that your trust and plan does not qualify for recognition of exemption from federal income tax under section 501(c)(9) of the Code. You are, therefore, required to file federal income tax returns.

You have a right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted within 21 days from the

[REDACTED]

date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Procedures.

If we do not hear from you within 21 days, this ruling will become final and copies of it will be forwarded to the District Director, Baltimore, Maryland. Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to that office.

When submitting additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following symbols on the envelope: OP:E:EO:T:R:1, Room 6506. These symbols do not refer to your case but rather to its location.

Further correspondence with respect to this case should be sent to the following address:

Internal Revenue Service
1111 Constitution Ave., N.W.
Washington, D. C. 20224
Attn: [REDACTED]
[REDACTED]

Sincerely yours,

(Signed) [REDACTED]
[REDACTED]

Chief, Rulings Section
Exempt Organizations
Technical Branch

cc: DD, Baltimore
Attn: EO Group

cc: [REDACTED]